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The Role of Islamic Banks in Achieving Sustainable Development

Majed Saeed Humaid Musabah Alhendasi

Academy of Islamic Civilization, Faculty of Social Sciences and humanities, UTM, Malaysia

Ahmad Bin Che Yaacob

Academy of Islamic Civilization, Faculty of Social Sciences and humanities, UTM, Malaysia

Ahmed Shehab

Faculty of Sharia & Law, Islamic University of Gaza, Palestine

Abstract--The study aims to evaluate the role of Islamic banks in achieving sustainable development for the national Islamic economy by analyzing the broad framework of sustainable development in the Islamic economy and its mechanisms. The study also aims to explain the reality of Islamic banks in the United Arab Emirates, their indicators of performance, and the most important challenges thereof. The problem of the study is that the public is not aware of the role of UAE Islamic banks in achieving sustainable development for the national Islamic economy. The researcher uses the descriptive and analytical research method, in addition to using the comparative approach. The study concludes with several findings and recommendations, the most important findings are: the UAE legislator has kept pace with developments within the framework of sustainable development that meets the needs of the present generation without sacrificing or compromising the ability of future generations to meet their needs. The study concludes that Islamic banks contribute to achieving sustainable development at the social level by collecting zakat and distributing it to those who are entitled to it, providing good loans, and undertaking various social activities.

Keywords--contribute, Islamic banks, national economy, sustainable development, United Arab Emirates.

Introduction

Islamic banks represent an important part of the banking system in countries, as they are entrusted with the task of contributing to the development of the economy. However, Islamic banks follow a special philosophy based on the provisions of Islamic Sharia. This philosophy is what distinguishes Islamic banking from traditional banks. In a world characterized by globalization and economic crises, banks and financial institutions no longer aim for pure profit only. Rather, these times banks aim to achieve what is known as sustainable development, which has contributed to enhancing the competitive advantage in Islamic banks. Many Islamic banks have taken a set of measures and put in place a set of policies and strategies to achieve sustainable development under Islamic law.

Islamic thought in general, and Islamic banking in particular, accommodates all the components of sustainable development unless they deviate from the principles and purposes of Islam. One of the most prominent means of Islamic banking in achieving sustainable development is the Islamic mortmain property (Waqf) and because of its sustainability characteristics, and its implications for various areas of development, economic, social, and environmental. Zakat funds in Islamic countries, which have become an effective means in achieving the sustainable development process, also play a major role due to the role they play in redistributing wealth and income, fighting the accumulation of capital, encouraging investment, and alleviating unemployment problems by investing zakat funds in various types of projects that contribute to the development. Sustainable development has gained great importance at the global level, especially after the convening of the Environment and Development Summit in Brazil in 1992 resulted in Agenda 21 constituting a global plan to achieve sustainable development and establish the United Nations Commission for Sustainable Development (Yahyawy, 2016).

Islamic banks play an important role in mobilizing financial resources and funding development. Islamic banks have become very popular after the global financial crisis because of their steadfastness and being largely unaffected by the financial crisis due to their reliance on the ethical aspect as a basis for the relationship between them and clients, their keenness to limit the spread of usury and their role in achieving economic and social development. There is no doubt that the competition of traditional banks to provide Islamic banking services is the biggest evidence of the success of the experience of Islamic banks in attracting an important mass of deposits and directing them to financing investment projects (Hussain, 2009).

Islamic banks in the United Arab Emirates have played an important role in economic development through their efficiency in the field of Islamic banking by financing various sectors using different forms of Islamic finance. This has given the UAE a distinction in the field of sustainable economic development (Al-Omari, 2018). In this study, we review the role of Islamic banks in the UAE in achieving sustainable development. This will be done according to a specific methodology.

Literature Review

Here is the most important literature review related to the subject of our study:

- [Syed Ali \(2016\)](#), in his study entitled (The Islamic Economy Sector in the United Arab Emirates) explains the concept of the Islamic economy, its characteristics, the size of the Islamic economy in the United Arab Emirates, and the reasons and motives for the direction of Dubai to activate the Islamic economy. The study touches on the strategic plan to develop the Islamic economy sector in Dubai, the prospects and results for the growth of the Islamic economy, and its implications for the national economy.
- [Yassin Nahla \(2015\)](#), explains in his study entitled: The Reality of Liquidity in Islamic Banks: A Case Study on Emirati Islamic Banks (2009-2014) that the objective of the study is to highlight the reality of liquidity in Islamic banks. The study covers a sample of four Islamic banks operating in the UAE banking environment during the period from 2009 to 2014. The researcher has conducted descriptive statistics for the data collected from the annual reports of banks throughout the study period. Seven liquidity ratios have been calculated and analyzed to achieve the desired objectives. The study has found that there is a large surplus in liquidity at the Emirates and Sharjah Islamic Banks, unlike Dubai Islamic Bank and Abu Dhabi Islamic Bank, and this reflects the ability of the latter two to control liquidity and optimize the investment of their resources.
- [Qurumiyah \(2017\)](#), in his study entitled The Impact of Banking Merger on the Profitability of Islamic Banks: A Case Study on the Bahraini Salam Bank and the Emirates Islamic Bank, indicates that his study has focused on clarifying the banking merger and its objectives, especially if the issue is related to Islamic banks as they are banking institutions aiming for profit in addition to its economic, social and development functions. The study concludes that Islamic banks have undergone few mergers between them. The study has also concluded that there is a statistically significant effect of the merger on increasing the profitability of Bahrain's Al Salam Bank and Emirates Islamic Bank.

What is Islamic banking?

Here is a review of what Islamic banks are in terms of definition, origin, and objectives.

The concept of Islamic banking

Many definitions of Islamic banks differ in form yet share the same meaning. These are the most important definitions of Islamic banks: Islamic banks are Banking institutions to collect funds and employ them under Islamic laws thereby contributing to the building of a solid Islamic community and achieving fair distribution and proper use of money. Others have defined them as an investment financial institution with a developmental, humanitarian, and social mission aimed at pooling funds and achieving optimal use of its resources under the rules and provisions of Islamic law to build a solid Islamic community. Another group of jurists has defined it as a banking institution that is committed in all its

transactions, investment activities, and management of all its activities to the Islamic Sharia, as well as to the internal and external objectives of the Islamic community (Al-Jabari, 2013),

Based on the previous definitions, Islamic banks can be defined as financial institutions that provide services and banking under the principles of Islamic law thereby achieving the objectives of Sharia. They act as mediators between the savings and investment sector by attracting financial resources and re-employing them efficiently through various financial instruments to achieve their growth in addition to ensure the achievement of economic and social development.

The emergence of Islamic banks

The establishment of Islamic banks came to meet the needs of Islamic societies in finding formulas for banking dealings away from dealing with interest and by relying on the Qur'an and Sunnah in commercial transactions and to keep pace with economic developments. Banking was known in ancient times and it developed according to the development of the use of money, a mediator in commercial exchange. The Islamic civilization had forms of banking in the field of deposit and investment, as researchers think that the beginning of modern banking work was by the Muslims (Cormia, 2017). The history of the emergence of Islamic finance institutions, according to some studies, goes back to the year 1940 in Malaysia where interest-free savings funds were established.

In 1950, the idea of adopting funding formulas that adhered to the provisions of Islamic Sharia law was adopted by Pakistan. Serious attempts in the modern era to establish banks that provide banking services and business in compliance with the provisions of Islamic Sharia began in 1963 through the experience of local savings banks that appeared in Upper Egypt in the Dakahlia Governorate. These local savings banks relied on their work on accumulating the small savings of small farmers and re-employing them based on participation away from the interest rate. This experience, despite its shortness, lasted only four years was successful as evidenced by the number of depositors reaching fifty-nine thousand depositors within three years only.

However, this promising experience was not sustainable due to political and administrative factors. During the second conference of foreign ministers of Islamic countries held in Karachi, Pakistan in 1970, both the Egyptian and Pakistani delegations submitted a proposal to establish an international Islamic bank or an international federation of Islamic banks. The project was studied and a report was presented stipulating the necessity to develop an Islamic system as an alternative to the usurious system. The year 1971 witnessed the establishment of Nasser Social Bank, which began practically practicing its banking activities in 1972, and its founding law stipulated not to deal with interest.

This experience attracted great interest, which made it on the agenda of the meeting of the foreign ministers of Islamic countries in 1972 in the city of Jeddah, which examined the possibility of establishing local Islamic banks and an international Islamic bank (Al-Jabari, 2013). At a meeting of Islamic finance ministers in Jeddah in 1973, the idea of establishing Islamic banks that would

provide integrated banking services was raised. The meeting also discussed in detail the theoretical and practical aspects of establishing a system for Islamic banks and financial institutions. This idea was welcomed and accepted and the meeting ended with the necessity to put it into practice (Erekat, 2012).

Islamic banking knew its actual beginning in 1975 when an Emiri decree was issued to establish the Dubai Islamic Bank, which was distinguished by providing integrated banking services. And in the same year, the Islamic Development Bank was established, an international institution for financing development in which all Islamic countries participate. After that, many Islamic banks in different countries were established, and the Islamic banking industry witnessed rapid growth over the past four decades.

Objectives of Islamic banks

Islamic banks strive to achieve a set of objectives that intersect with the premises and characteristics of the Islamic banking industry, and the most important of these objectives are:

- Sparing the legal burden of Islamic individuals and institutions by finding a legitimate alternative to investing the money instead of usurious dealing.
- Providing distinguished banking services and contributing to achieving economic and social development in Islamic societies to improve the standard of living under the principles of Sharia.
- Raising savings awareness among individuals, rationalizing spending behaviors, operating idle capital, and employing it in economic fields that raise its return and increase its production.
- Encouraging investment, which is the primary goal of Islamic banks.
- Channeling and concentrating investment in the commodity production so that the cash in circulation does not increase and its value decreases. Therefore, the Islamic bank allows customers to participate in various projects (Al-Feki, 2010).
- Providing investment financing for all projects in the various agricultural, industrial, educational, and health sectors, and facilitating businessmen's access to banking facilities.
- Creating new forms of financing, such as Murabaha, also referred to as cost-plus financing, Musharakah, a joint enterprise or partnership structure, and Mudarabah, sharing the profit and loss with venture capital, that is compatible with Islamic law and is compatible with modern changes.
- Creating a free economic system, getting rid of the economic dependency of large countries, establishing distinguished Islamic banks that manage their economies, and expanding the volume of direct commercial exchanges between Islamic countries without a foreign intermediary.
- The introduction of social services aimed at reviving and enhancing social integration, such as: collecting zakat and distributing it according to specific legal banks, as well as accepting gifts and donations and employing them for the benefit of society (Al-Ajlouni, 2008).

What is sustainable development?

In this section of the study, sustainable development will be reviewed in terms of concept, elements, and objectives:

Definition of sustainable development

Scholars of jurisprudence have set many definitions of sustainable development. The most important of these definitions is the definition of the Brundtland Report, which defined sustainable development as development that meets the needs of the present generation without sacrificing or compromising the ability of future generations to meet their needs (Al-Mashni & Nashif, 2018). Whereas, the United Nations Conference on Environment and Development held in Rio de Janeiro, Brazil, in 1992, defined it as the necessity to fulfill the right to development so that the development and environmental needs of present and future generations are equally fulfilled (Shaheen, 2000).

Elements of sustainable development

Sustainable development plays a major role today in shaping a large part of contemporary development policy. It is a theory of sustainable and social development whose first and main goal is human development. It is a development that not only generates economic growth but also distributes its benefits, rebuilding the environment instead of destroying it. Its objective is not only to increase production, but also to enable people to live a better and longer life since human needs are not all material, but also moral and social, including education and culture. It provides opportunities for the exercise of creative activities, the right of expression, and the right to participate in deciding public affairs and preserving the environment for future generations (Al-Mashni & Nashif, 2018).

Sustainable development is based on four basic elements:

- Productivity, which is the human capacity to produce
- Equality, which is equal opportunities without discrimination
- Sustainability, which is not to harm future generations as a result of depleting natural resources, polluting the environment, or because of public debts that bear the burden of generations
- Empowerment, meaning that people are meant to achieve development and that they are not only the targets of this development meaning that people are the causes of development, and thus development enhances the ability of the human being to achieve self-fulfillment and become a target and a mean at the same time (Al-Sarn, 2001).

Sustainable development objectives

Sustainable development has a set of objectives that it seeks to achieve, and these objectives are: Achieving a better life for the population, protecting the natural environment, combating poverty, preserving good health and complete well-being, quality of education, gender balance, reducing inequalities, clean water and

sanitation, clean and affordable energy, decent work, and the growth of the economy, industry, innovation. Infrastructure, and building partnerships to achieve the objectives (Othman et al., 2012).

Islamic banks in the United Arab Emirates

The UAE economic system is considered a system distinguished by its characteristics, given that its economic transactions aim at achieving Islamic social integration. The philosophical background upon which the economy in the Emirates is based is characterized by a kind of peculiarity other banks of other countries lack due to the foundations upon which this background was founded and which aims to achieve the desired development that Western economic thought has failed to achieve for many Islamic peoples (Eid, 2008). At the beginning of the seventies of the last century, the banking sector in several Arab and Islamic countries witnessed the emergence of Islamic banks operating under the values and controls of financial transactions in the Islamic economy. These banks are based on the idea of participating in profit and loss and avoid dealing with pre-interest, which is the essence of the work of traditional banks (Amoura, 2008).

Emirati Islamic banks have played an important role in economic development due to their efficiency and distinction in the field of Islamic banking. The UAE Islamic banks have financed various sectors using different instruments of Islamic finance. This has distinguished the UAE in this field thus prompting it to launch many initiatives, the most important of which is the Dubai Capital of Islamic Economy initiative in 2013. According to the annual report of the UAE Central Bank in 2016, twenty-three local banks are operating in the United Arab Emirates within its banking sector, including eight Islamic banks. Islamic banks in the United Arab Emirates are: Dubai Islamic Bank, Al Ami Bank, Emirates Islamic Bank, Sharjah Islamic Bank, Abu Dhabi Islamic Bank, Noor Bank, Ajman Bank, Al Hilal Bank, Mashreq Islamic Bank. Most of the UAE Islamic banks occupy advanced positions in the list of Islamic banks in the world in terms of the size of their assets.

The UAE Islamic banks have also won many appreciation awards at the international and national levels. according to the annual report of the UAE Central Bank for the year 2016 The size of Islamic banking assets in the United Arab Emirates is estimated at 506 billion dirhams. The experience of Islamic banks in the United Arab Emirates in economic development is considered a pioneering experience, and this is due to several reasons. The first reason is the fact that Islamic banks in the United Arab Emirates enjoy a large volume of assets. The second reason is that they utilize technological development in banking services and apply the provisions of Islamic law simultaneously. The third reason is the existence of a special law that regulates their work contributing to the development and activation of the financial environment.

The role of Islamic banks in achieving sustainable development

Achieving sustainable development has become a global demand for everyone after the world has experienced many environmental, social, and economic

imbalances in recent times that threaten not only the continuity, progress, and well-being of humans, but their existence and life on this planet. Many economists, politicians, and thinkers now believe that sustainable development is the effective mean to remedy these imbalances and to spare the world the negative repercussions that have resulted from the application of the traditional development model during the past decades. They believe that it is incumbent upon all countries, institutions, and various entities to play an active role in achieving sustainable development (Al-Mashni & Nashif: 2018). This is the role assigned to Islamic banks in this era since these banks contribute to achieving sustainable development in various fields, as follows:

The role of Islamic banks in achieving sustainable development at the social level

The role of Islamic banks in achieving sustainable development on the social level is evident through their undertaking of a group of actions represented in:

- Collecting zakat: Zakat is one of the most important financial resources of the state as zakat money contributes to providing the necessary productive resources and establishing factories, real estate, and institutions that generate savings that help achieve financial sufficiency.
- Providing interest-free loan: Islamic banks are characterized by providing interest-free loans. Islamic banks provide a specific amount of money to individuals or clients without charging them any commissions, or asking them for interest and return on investment of this amount, or demanding any increase of any kind, and thus these banks guarantee that clients and individuals repay the loan. When offering interest-free loans, the Islamic bank only recovers the principal and the money that it has loaned to this customer or this individual.
- Endowment: Today, Islamic banks have a special endowment fund through which philanthropists can endow their money for charitable work. Islamic banks administer endowment money (Malawi, 2009).
- Carrying out various social activities: Islamic banks carry out many social activities based on their responsibility for social development. These activities include granting subsidies and aids to mosques and students, and issuing Islamic books and pamphlets.
- Taking into account the social dimension in financing: Islamic banks are distinguished by taking into account the social dimension when granting financing to investment projects. Islamic banks give priority to the necessary projects needed by society (Al-Mashni & Nashif, 2018).

The role of Islamic banks in achieving sustainable development at the environmental level

The special nature of investment activity in Islamic banks leads to support the process of sustainable development through its role in protecting financial resources from waste, working to rationalize their use, and protecting the environment from pollution and damage through financial methods such as sharecropping contract.

The role of Islamic banks in achieving sustainable development at the economic level

The role of Islamic banks in achieving sustainable development is evident through the economic dimension through several financial methods, including Musharakah, a joint enterprise or partnership structure, and Mudarabah, sharing the profit and loss with venture capital leasing and Istisna'a contract ([Al-Mashni & Nashif, 2018](#)).

Challenges and obstacles facing Islamic banks

Islamic banks have faced a set of challenges and difficulties preventing them from implementing their financing and development policy and managing the recruitment of their resources. There are two types of obstacles, external and internal. They are as follows:

- **External obstacles**

The external obstacles facing Islamic banks are many, including:

- Economic obstacles, including competition from traditional commercial banks, the dominance of the capitalist system, the weak ability of Islamic banks to keep pace with the banking industry in terms of development in their systems and services, and the lack of an Islamic financial market in the presence of financial markets that deal with principles and values that are inconsistent with the values and principles of Islamic banks.
- Social obstacles such as the different jurisprudence and legal opinions that have caused the difference in application and diversity of financing models and contracts, the mainstream culture in society and its negative perception of Islamic banks due to the dominance of the system of Mudarabah over their other business, and the weakness of the marketing policy leading to a weak attraction of a large segment of the public.
- Legal obstacles: the most important of which is the legislative deficit in regulating the work of Islamic banks and the sufficiency in the UAE Federal Law No. 6 of 1985 in the matter of banks, financial institutions and Islamic investment companies, and the absence of an independent judiciary to implement the provisions related to Islamic banking ([Belajouz, 2009](#)).

- **Internal obstacles**

There are a set of challenges and obstacles that prevent Islamic banks from being able to perform their work. We mention the most important of those obstacles are the Weak efficiency of the employee, weak management of banking operations in terms of speed of completion, underutilize OF modern technology, rigidity in understanding instructions and regulations, weak investment policy, and lack of diversification of financial instruments in banks ([Al-Mashni & Nashif: 2018](#)).

Conclusion

After reviewing the role of Islamic banks in achieving the sustainability of the national economy, stating the advantages, characteristics and objectives of Islamic banks, standing at the elements of sustainability, getting acquainted with Islamic banks in the UAE and their role in various fields, and clarifying the most important challenges and obstacles facing Islamic banks, the study has concluded for a set of findings and recommendations that we review as follows

Results

The study has concluded a set of findings. They are as follows:

- The Emirati legislator has kept pace with developments within the framework of sustainable development that meet the needs of the present generation without sacrificing or compromising the ability of future generations to meet their needs.
- The UAE legislator has regulated the work of Islamic banks under Federal Law No. 6 of 1985, which is shrouded in some ambiguity
- Islamic banks contribute to achieving sustainable development on the social, economic, and environmental levels.
- Inefficiency of workers in Islamic banks, and the inefficiency of banking operations in terms of speed of completion, and the underutilization of modern technology.
- There is a clear rigidity in understanding the instructions and regulations issued by the Monetary Authority, and this is reflected in the insufficiency of the investment policy and the lack of diversification of financial instruments in Islamic banks.

Recommendations

The study recommends several things that may be a fundamental factor in building a way to upgrade the work of Islamic banking institutions. These recommendations focus on the following:

- The researcher recommends that the UAE legislator make amendments to the Islamic banking law by expanding the ability of these banks to invest, facilitating licensing procedures, and supporting their credit ceiling.
- The researcher recommends the Emirati legislator to work to enhance the position of Islamic banks in societies as they are the main base for the Zakat Fund and other means of achieving community solidarity.
- The researcher recommends granting confidence to Islamic banks to unify their efforts in investing funds in the public interest and distributing them to those who deserve it, and that banks maintain the management of funds in a transparent manner.
- The researcher recommends holding specialized courses and intensive meetings for workers in Islamic banks.
- The researcher recommends educating the public about the advantages of Islamic banks by presenting the privileges that the investor gets.

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